

**SONOMA COUNTY SANITATION DISTRICTS
ENTERPRISE FUNDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000**

1. Definition of Reporting Entity and Summary of Significant Accounting Policies:

Definition of Reporting Entity

The five Sonoma County Sanitation Districts including Forestville, Occidental, Russian River, Sonoma Valley and South Park were managed by the Department of Transportation and Public Works until December 31, 1994. Reorganization transferred management of the Sanitation Districts to the Sonoma County Water Agency which provides engineering, administration, operational and maintenance services. The Sanitation Districts are responsible for maintaining and operating their local sanitation collection systems, pump stations, and treatment plants. Each Sanitation District has an ordinance defining policies, including user fees.

An agreement for transfer of responsibility to the City of Santa Rosa of collection system operation and maintenance, and subsequent dissolution of South Park Sanitation District, was finalized on February 27, 1996 and amended February 1998 and June 2000. Under this agreement, 1) South Park will be dissolved no later than July 1, 2006, 2) the City of Santa Rosa shall acquire the unused capacity of South Park, and 3) South Park will upgrade the collection system to meet City of Santa Rosa standards. The agreement requires South Park to replace, slip-line, or repair 41,610 feet of the collection system and upgrade the Todd Road lift station before transfer of South Park to the City of Santa Rosa. On July 1, 1996, the City of Santa Rosa accepted responsibility for the operation and routine maintenance of the collection system.

Summary of Significant Accounting Policies:

The Sonoma County Sanitation Districts conform to generally accepted accounting principles as applicable to governmental units. A summary of significant accounting policies is included below:

A. Component Unit Reporting

The Sanitation Districts are governed by the Board of Supervisors of the County of Sonoma. The exercise of this oversight responsibility causes the Sanitation Districts to be an integral part of the County of Sonoma's reporting entity. Therefore, the Sanitation Districts' financial statements have also been included in the County's annual financial statements.

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**1. Definition of Reporting Entity and Summary of Significant Accounting Policies
(Continued):**

B. Basis of Presentation

Proprietary Fund - The Sanitation Districts use proprietary funds to account for their financial position and the results of their operations. Proprietary funds are accounted for on a flow of economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with this activity are included on the balance sheet. The reported fund equity (net total assets) is segregated into contributed capital and retained earnings components.

Enterprise Funds - Enterprise funds are a type of proprietary fund, and are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the determination of net income is necessary or useful to sound financial management.

C. Basis of Accounting

The accrual basis of accounting is used by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded when they are incurred.

D. Cash and Investments

The Sanitation Districts follow the practice of pooling cash and investments with the County Treasurer except for restricted funds held by an outside trustee. Earned interest is allocated quarterly to the Districts in proportion to their average daily balance in the County Treasury Investment Pool.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, the Sanitation Districts report all property held for investment at fair value and recognize the corresponding change in the fair value of investments in the year in which the change occurred.

For the purpose of the Statement of Cash Flows, the Sanitation Districts consider all cash and investments (including restricted assets) to be cash or cash equivalents due to their liquidity and availability to the Sanitation Districts.

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**1. Definition of Reporting Entity and Summary of Significant Accounting Policies
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E. Receivables

Accounts receivable consists of uncollected fees for sanitation services at June 30, 2000.

Other receivables of the combined Sanitation Districts represent outstanding user fees at June 30, 2000. These user fees are established annually by the Board of Supervisors and billed through the County's property tax system.

F. Fixed Assets

Fixed assets are stated at cost or estimated historical cost. Depreciation has been provided using the straight-line method over estimated lives ranging from 3 to 50 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Buildings and improvements are generally estimated to have useful lives from 30 to 50 years.

G. Contributed Capital

Contributed capital consists primarily of:

- Capital grants to the Sanitation Districts from Federal and State Environmental Protection Agencies.
- Nonroutine contributions to increase a Sanitation District's capitalization, or for capital acquisitions.
- System connection fees in excess of related costs.
- Depreciation on assets constructed with contributed funds is closed to contributed capital.

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H. Property Tax Revenue

The County of Sonoma is responsible for assessing, collecting and distributing property taxes in accordance with state law. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County of Sonoma. Secured property taxes are due in two installments, on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction.

Since the passage of California's Proposition 13, beginning with fiscal year 1978/1979, general property taxes are based either on a flat 1% rate applied to the 1975/1976 full value, or on 1% of the sales price of the property on sales transactions and construction after the 1975/1976 valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise at a maximum of 2% per year.

Taxes are collected by the County of Sonoma and apportioned to each taxing agency in accordance with state law.

I. Related Parties

The Sanitation Districts are Special Districts under the Board of Supervisors, and as such, have the same or similar Board members as the County of Sonoma.

J. Interfund Eliminations

Eliminations of interfund activity have been made within fund types but not between fund types.

2. Cash in County Treasury and with Fiscal Agent:

The Sanitation Districts maintain their cash and investments in multiple accounts with the Sonoma County Treasury Investment Pool. The Sonoma County Treasurer acts as a disbursing agent. Forestville County Sanitation District and Sonoma Valley County Sanitation District also have restricted deposits with an outside trustee.

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2. Cash in County Treasury and with Fiscal Agent (Continued):

By limiting their investments to the County Treasury Investment Pool, the Sanitation Districts are regulated by the *County of Sonoma Statement of Investment Policy* as adopted by resolution of the Sonoma County Board of Supervisors in compliance with provisions of the California Government Code. Funds are available to the districts on short notice and are treated as a cash equivalent.

As of June 30, 2000, the weighted average maturity of the Treasury Pool was less than two years. Fifty-six percent of the securities in the Treasury Pool have maturities of zero to one year, thirty-one percent have maturities of one to three years, and fourteen percent have maturities of three to five years. No securities in the Treasury Pool were in excess of five years.

A portion of the securities in the Treasury Pool have variable interest rates that are tied to certain indices such as LIBOR (floating rate securities). Floating rate securities will influence the performance of the portfolio based on the increase or decrease occurring in interest rates over the short term.

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. The County Treasurer believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the County Treasurer from having to sell investments below original cost for that purpose.

The Sanitation Districts' shares of the net decrease in fair value of investments during fiscal year 1999-2000 was as follows:

Forestville County Sanitation District	\$ 4,090
Occidental County Sanitation District	2,053
Russian River County Sanitation District	11,348
Sonoma Valley County Sanitation District	80,494
South Park County Sanitation District	29,749

These amounts take into account all changes in fair value (including purchases and sales) that occurred during the fiscal year.

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2. Cash in County Treasury and with Fiscal Agent (Continued):

Cash with fiscal agents is collateralized by securities held by the financial institutions acting as fiscal agent. Such securities are typically held in a pool for the purpose of providing collateral and are not held in the name of the individual districts. Funds are available for their designated purpose on short notice and are treated as a cash equivalent.

3. Restricted Assets:

The restrictions and uses applicable to restricted assets are as follows:

- Customer deposits are funds deposited for the Sonoma Valley Water Conservation Rebate Program.
- General Obligation Bond Funds are the cash balances generated primarily from property taxes levied specifically to repay general obligation bonds.
- Revenue Bond Funds are the cash balances generated primarily from fees levied specifically to repay the current revenue bond principal and interest liability.
- Revenue Bond Reserve Funds are cash balances generated primarily from fees levied specifically to secure the payment of principal and interest on revenue bonds.
- Cash with Fiscal Agent are cash balances held by trustees in reserve funds as required by funding obligations for debt service and capital projects.

4. Other Assets

- Debt Issuance Costs are amortized over the life of the underlying debt obligations.
- Note Receivable - Interfund is an advance of funds by South Park County Sanitation District to Occidental County Sanitation District.

5. Construction in Progress:

Construction in progress consists of accumulated costs for the construction and improvement of certain sanitation facilities which were in progress as of June 30, 2000.

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6. Advances from Other Governments:

- The County of Sonoma and the Sonoma County Water Agency have advanced funds to certain Sanitation Districts. Interest rates range from 0% to 5.13%.

Payments are scheduled as follows:

Year Ending June 30	Forestville	Occidental	Russian River	South Park	Total
2001	\$	\$ 20,000	\$ 66,000	\$ 100,000	\$ 186,000
2002	420,418	20,000	66,000	100,000	606,418
2003		314,798	66,000	100,000	480,798
2004			66,000	100,000	166,000
2005			66,000	100,000	166,000
Thereafter			218,153		218,153
Total Payments	420,418	354,798	548,153	500,000	1,823,369
Less amount representing interest	(57,418)	(44,798)	0	0	(102,216)
Liability at June 30, 2000	363,000	310,000	548,153	500,000	1,721,153
Less current portion	0	(20,000)	(66,000)	(100,000)	(186,000)
Noncurrent portion	<u>\$ 363,000</u>	<u>\$ 290,000</u>	<u>\$ 482,153</u>	<u>\$ 400,000</u>	<u>\$ 1,535,153</u>

- During fiscal year 1994-95, Sonoma Valley received a loan of \$760,992 from the State Water Resources Control Board for an outfall rehabilitation project. The loan is a State Revolving Loan with an initial payment of \$44,065 and subsequent payments of \$49,894 payable annually in July. The expected term is 20 years at an annual interest rate of 2.7% with the last payment scheduled for July 2014.

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6. Advances from Other Governments (Continued):

Payments are scheduled as follows:

<u>Year ending June 30</u>	<u>Sonoma Valley</u>
2001	\$ 49,894
2002	49,894
2003	49,894
2004	49,894
2005	49,894
Thereafter	<u>498,936</u>
Total payment	748,406
Less amount representing interest	<u>(139,645)</u>
Liability at June 30, 2000	608,761
Less current portion	<u>(33,457)</u>
Noncurrent portion	<u>\$ 575,304</u>

7. Capital Leases Payable:

Future minimum lease payments under capital leases to fund certain improvements to the sewer systems for Forestville County Sanitation District together with the present value of the minimum lease payments at June 30, 2000, are as follows:

<u>Year ending June 30</u>	<u>Forestville</u>
2001	\$ 132,263
2002	132,263
2003	132,263
2004	132,263
2005	132,263
Thereafter	<u>1,454,886</u>
Total minimum lease payments	2,116,201
Less: Amount representing interest	<u>(812,601)</u>
Present value of minimum lease payment	1,303,600
Less: Current portion	<u>(48,301)</u>
Leases payable, noncurrent	<u>\$ 1,255,299</u>

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8. Bonds Payable:

Bonded debt for the Sanitation Districts is summarized as follows:

	Final Maturity Date (Fiscal Year)	Interest Rates	Amount
General Obligation Bonds	2009-2018	4.75% to 5%	\$ 2,203,000
Revenue Bonds	2020-2023	4.75% to 5%	<u>22,008,263</u>
Total bonds payable, June 30, 2000			<u>\$ 24,211,263</u>

There are a number of limitations and restrictions contained in the various bond indentures. The Sanitation Districts believe they are in compliance with all significant limitations and restrictions.

The annual requirements to amortize general obligation bonds payable outstanding at June 30, 2000 are as follows:

Year Ending June 30	Occidental	Russian River	Sonoma Valley	Total
2001	\$ 1,427	\$ 50,125	\$ 4,725	\$ 56,277
2002	1,380	168,500	17,250	187,130
2003	1,333	169,875	16,850	188,058
2004	1,285	171,000	17,425	189,710
2005	1,238	171,875	16,975	190,088
Thereafter	<u>4,474</u>	<u>2,357,875</u>	<u>206,025</u>	<u>2,568,374</u>
	11,137	3,089,250	279,250	3,379,637
Less amount representing interest	<u>(2,137)</u>	<u>(1,084,250)</u>	<u>(90,250)</u>	<u>(1,176,637)</u>
Bond liability, June 30, 2000	9,000	2,005,000	189,000	2,203,000
Less current portion	<u>(1,000)</u>	<u>0</u>	<u>0</u>	<u>(1,000)</u>
Long-term bonds payable	<u>\$ 8,000</u>	<u>\$ 2,005,000</u>	<u>\$ 189,000</u>	<u>\$ 2,202,000</u>

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8. Bonds Payable (Continued):

The annual requirements to amortize revenue bonds payable outstanding at June 30, 2000 are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Russian</u> <u>River</u>	<u>Sonoma</u> <u>Valley</u>	<u>Total</u>
2001	\$ 119,250	\$ 1,466,592	\$ 1,585,842
2002	117,000	1,471,092	1,588,092
2003	119,750	1,469,692	1,589,442
2004	117,250	1,477,292	1,594,542
2005	119,750	1,478,792	1,598,542
Thereafter	<u>1,793,500</u>	<u>27,703,354</u>	<u>29,496,854</u>
	2,386,500	35,066,814	37,453,314
Less amount representing interest	<u>(901,500)</u>	<u>(14,543,551)</u>	<u>(15,445,051)</u>
Bond liability, June 30, 2000	1,485,000	20,523,263	22,008,263
Less current portion	<u>(45,000)</u>	<u>(500,000)</u>	<u>(545,000)</u>
Long-term bonds payable	<u>\$ 1,440,000</u>	<u>\$ 20,023,263</u>	<u>\$ 21,463,263</u>

9. Interest Payable:

Interest payable consists of interest accrued on the following obligations:

Payable from current assets:

Capital leases \$ 28,245

Payable from restricted assets:

State Water Resources Control Board 18,562

Long-term bonds 423,350

Total 441,912

Long-term liability:

Advances from other governments 24,032

Total interest payable \$ 494,189

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10. Contributed Capital:

During the year, contributed capital changed as follows:

Contributed capital, July 1, 1999	\$ 57,557,897
FY 99-00 additions:	
Customer/developer - connection fees	880,902
Sonoma County Water Agency - General Fund	113,088
FY 99-00 deletions:	
Depreciation expense on contributed fixed assets	<u>(1,740,813)</u>
Contributed capital, June 30, 2000	<u>\$ 56,811,074</u>

11. Deficit Retained Earnings:

The Russian River County Sanitation District and the Occidental County Sanitation District have deficit retained earnings of \$5,593,554 and \$72,993 respectively. These districts have incurred expenses in excess of revenues during the current year and in prior years. Occidental is currently receiving advances from the Sonoma County Water Agency to cover losses resulting from its continuing inability to increase revenues or to further reduce its cost of operations. In the case of Russian River, the deficit can be traced to the annual charges to operations for the depreciation of sewer system construction costs which were funded in prior years with long-term debt.

12. Commitments and Contingencies

● **Contracts**

The Sanitation Districts are committed under contract as follows:

Forestville Sanitation District	\$ 229,557
Russian River Sanitation District	38,520
Sonoma Valley Sanitation District	1,831,430
South Park Sanitation District	1,361,682

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12. Commitments and Contingencies (Continued)

- **Contracts (Continued)**

South Park Sanitation District is required to pay \$125,000 per year for a period of five years to the North Coast Regional Water Quality Control Board (NCRWQCB). Payments began September 1, 1999 in order to cover administrative costs of the NCRWQCB for the purpose of ensuring progress in investigation, cleanup, outreach, and potentially responsible party identification in the volatile organic compound plume area within the District.

- **Risk Management**

The Sanitation Districts are partially self-insured through the County of Sonoma's self-insurance program. The Sanitation Districts are covered under this program for general liability, auto liability and public official's errors and omissions.

- **Pending Litigation and Claims**

Proceedings are pending before the North Coast Regional Water Quality Control Board, the Superior Court, and the federal district citizen suit court in which the Russian River County Sanitation District is to have committed violations of the Federal Clean Water Act. Substantial costs can be expected in connection with these pending proceedings and the necessary physical improvements to comply with the Clean Water Act; it is too early to predict the amount of these substantial costs or the source of funds. South Park County Sanitation District and the County of Sonoma have entered into a plan of action with the California Regional Water Quality Control Board to investigate a groundwater plume of volatile organic compounds. If the information from the investigation confirms that the plume entered the ground from sewer pipes, the District and Sonoma County may incur substantial costs in connection with remediation. It is too early to predict the amount of such costs.